

Service Date: December 28, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF Montana

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IN THE MATTER of the Stipulation)	UTILITY DIVISION
Between the Montana Power Company)	
and the Montana Consumer Counsel)	DOCKETS NO. 81.6.57
Pertaining to MPC Gas Operations)	and 83.1.5
and Previously Filed Applications.)	ORDER NO. 4976b

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FINAL RATE ORDER

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FINDINGS OF FACT

1. On November 29, 1984 the Montana Power Company (MPC) and the Montana Consumer Counsel (MCC) filed a stipulation of issues and consent to enter a final order in Docket No. 83.1.5. The stipulation also settled issues outstanding in Docket No. 81.6.57 Phase II.
2. On December 4, 1984 the Commission issued a Notice of Stipulation and Opportunity for Public Hearing which invited public comment on the stipulation. No comments or requests for hearing were received.
3. The stipulation and its terms are incorporated by reference and is attached to this order.

4. The Commission finds the stipulation to be in the public interest and therefore approves all aspects of the stipulation. The Commission notes that the stipulation has no impact on rates.

5. The Commission finds, absent any change in rates, that MPC's rate design is proper and should remain in place.

CONCLUSIONS OF LAW

1. Montana Power Company is a corporation providing service within the State of Montana and as such is a "public utility" within the meaning of Section 69-3-101, M.C.A.

2. The Montana Public Service Commission properly exercises jurisdiction over MPC's Montana operations pursuant to Title 69, Chapter 3, MCA.

ORDER

1. The stipulation and its provisions entered into by MPC and MCC is hereby approved.

2. The provisions shall be effective for service rendered on and after December 21, 1984.

3. Rates shall not be changed by any aspect of the stipulation. Accordingly the pre-December 21, 1984 rates and rate design shall remain in place.

DONE IN OPEN SESSION at Helena, Montana this 21st day of December, 1984 by a vote of 4 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

CLYDE JARVIS, Commissioner

HOWARD L. ELLIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill Commission Secretary

(SEAL)

Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of)	
THE MONTANA POWER COMPANY for Authority)	
to Establish Rates for its Deferred)	Docket No. 83.1.5
Accounting and IN THE MATTER of the)	
Canadian Border Price Reduction from)	
\$4.94 to \$4.40.)	
_____)	

STIPULATION

* * * * *

The undersigned parties to the above referenced proceeding hereby consent and stipulate to the entry by the Montana Public Service Commission of a Final Order in this Docket reflective of the attached stipulation.

DATED this 28TH day of November, 1984.

THE MONTANA POWER COMPANY

By Pamela K. Merrell

MONTANA CONSUMER COUNSEL

By James C. Paine

1. On January 24, 1983, The Montana Power Company (MPC) filed its application in Docket No. 83.1.5 to amortize the balance in the unreflected gas cost account for the 20-month period January 1, 1981 through August 31,

1982. The application sought a net revenue increase of \$3,367,710 which reflected the gas supply costs incurred over gas cost revenues collected, during that 20-month period.

This filing also included a request for approval to switch MPC's deferred accounting period from a calendar year basis to a September 1 through August 31 annual basis.

2. On April 12, 1983, the Canadian Government announced a reduction in the international border price from \$4.94 per MMBtu to \$4.40 per MMBtu. On the service date of April 25, 1983 the Montana Public Service Commission (PSC) issued Interim Order No. 4976 in this Docket upon the stipulation of MPC and the Montana Consumer Counsel (MCC). That Order; a) authorized MPC to begin the amortization of its unreflected gas cost account balance, \$3,367,710, over a projected 12-month period, beginning with service on and after April 25, 1983, and continuing until extinguished, and b) recognized a revised gas market and gas supply mix. The revised mix of gas supply sources recognized the impact of the border price reduction to the \$4.40/MMBtu level on MPC gas imported at the Aden border point. Order No. 4976 recognized a reduction in revenue requirement of \$6,124,680 due to the impact of the mix proposed in the Docket and the border price reduction together with approval of the deferred account balance of \$3,367,710. The net overall effect of the Order was to reduce rates and consequently reduce the annual natural gas utility revenues by \$2,756,970.

3. On December 7, 1983, MPC made an amended filing in this Docket which sought approval of a modified basis for the natural gas revenue requirements in effect under Order No. 4976. This amended filing incorporated nongas cost aspects of a general rate increase for an adjusted 1982 test period together with a gas cost tracking application for the succeeding 12-month period ending August, 1984.
4. The amended filing contained many elements which were novel in terms of MPC's natural gas utility rate proceedings. MPC represented that these new approaches, such as a change from Last-In-First-Out (LIFO) to average pricing of net gas withdrawal from storage, were being introduced in an effort to stabilize gas rates. Another aspect of the amended filing was the adjustment in the nongas-cost rate of the revenue requirement associated with a rate base inclusion of the southern section (Morel to Augusta) of the 16-inch natural gas transmission line under construction to be available for service in the proposed tracking period. In a manner which followed reflection of that increased investment, MPC had, for purposes of the amended filing, reduced the level of storage gas in rate base. Additionally, the tracking component of the filing allowed for the recognition of substantial revenues in the form of deficiency payments for gas contractually committed to, but not taken by, industrial customers.
5. As requested in the amended filing, the PSC on December 20, 1983, entered Order No. 4976a in this Docket. This Order approved a higher level of nongas costs than had formerly been in place, but that increase was offset by lower

gas costs, the flowback of a severance tax accrual following a favorable ruling by the Federal Energy Regulatory Commission, inclusion of the deficiency payments in revenue, and the termination of a prior Commission order authorizing amortization of a deferred gas account undercollection from a prior period. The net result of these adjustments was a \$3,316,976 decrease in natural gas rates.

6. As presently constituted, this Docket encompasses two unreflected gas supply cost filings which are not contested or at issue. These filings are:
 - a. NPC request to recover \$3,367,710 in unreflected gas supply costs for the period January 1, 1981 through August 31, 1982. Amortization of this balance commenced under Interim Order No. 4976 of this Docket (Service Date of April 25, 1983), and ceased as of meter readings on and after January 1, 1984 pursuant to Order No. 4976a.
 - b. MPC request to amortize \$3,533,246 in unreflected gas supply costs for the 12 months ended August 1983. Under Order No. 4976a, this balance was combined with the unamortized balance for the 20-month period discussed above, and offset against the severance tax accrual of \$5,425,758 for the purpose of extinguishment.
7. The interim orders in this Docket have resulted in recent stability of gas rates, while the split of those rates between the gas cost and nongas components has changed with separate rate justifications. Those justifications are not presently at issue.

8. One part of the existing nongas cost rate component at issue is the allowance for exploration and development (E&D) expense collected by MPC. The PSC has repeatedly expressed its concern that MPC's recorded expenses in its exploration and development (E&D) program have not reached the level of the allowed expense. Since the time of Order No. 4714a (Docket No. 80.4.2) MPC has responded that numerous factors have limited its ability to precisely match the allowed expense in any given year. MPC asserts that it takes time to accelerate an E&D program to higher levels of activity and that hindsight now shows that past recommended and subsequently ordered E&D expenditure levels were overly optimistic. Given E&D staffing limitations early in the period after Order No. 4714a, MPC was unable to react quickly to meet ordered E&D expenditure levels. Since that time, MPC further market decline, take-or-pay constraints on Montana and Canadian gas, plus the strategy of utilizing storage gas have forced MPC to reassess the Docket 80.4.2 strategy of increasing reliance on royalty production.

MPC's actual E&D expenses are tending to converge with recent allowed expense levels and the Company's E&D program is contributing to the objective of maintaining its Montana reserve position. The parties believe that analysis of E&D expenses for the recent 12-month period for which data is available indicates an acceptable level of effort by MPC. The parties agree that no adjustments for E&D expenses is appropriate for this or previous periods.

9. Also pending in this Docket are the issues originally assigned to Docket No. 81.6.57, Phase II, regarding guidelines for exploration and development of

MPC's natural gas utility properties and its nonutility properties. MPC has filed a proposed draft set of guidelines which describe its intentions with regard to future development of utility properties for the benefit of the regulated enterprise, and development of nonutility properties for the benefit of MPC shareholders.

The concepts and philosophy embodied in these draft guidelines adequately address concern for the establishment of explicit rules to govern future actions toward these two classes of property. MPC's ratepayers will be adequately protected as these guidelines are implemented. These guidelines are attached to this stipulation and incorporated by this reference. Future revisions to these guidelines, as necessary to meet changing conditions, will be communicated to the PSC and the MCC upon approval of any revisions.

10. Also pending from Docket No. 81.6.57, Phase II, are certain issues regarding ratemaking treatment of leaseholds once included in MPC's utility operations, but now held by the nonutility subsidiaries, Roan Resources or North American Resources Co. The E&D guidelines discussed herein will adequately protect MPC's rate payers in future transactions of this nature.
11. The existing justification for MPC present natural gas utility rate levels, as discussed herein, is given final approval.
12. Those rates, effective under Interim Order No. 4976 and No. 4976a, should be found just and reasonable and not subject to rebate. The revenue effect of inclusion of the southern portion of the "transmission" line in rate base, and the revenue effect of certain deficiency payments from industrial contract

customers, should be eliminated prospectively, upon the approval of this stipulation.

THE MONTANA POWER COMPANY

Policy on Utility and Nonutility Oil and Gas
and Development Activities Within the
State of MontanaA. Purpose

To define guidelines and procedures for the conduct of Montana Power Company gas utility (Utility) and nonutility (NARCo) oil and gas exploration and development (E&D) activities within the State of Montana.

- (1) It is the intent of these guidelines to affirm the separate businesses relationship between the Utility and NARCo.
- (2) This policy is intended to clarify procedures that have been followed in the past as well as expand on those procedures for use in the future.

B. Utility Objective

To find and develop adequate, economical natural gas reserves to serve Montana Power Company gas utility customers within the State of Montana.

- (1) Consistent with historical precedent, Utility E&D efforts will not include any crude oil prospects or other ventures not directly related to the objective.
- (2) E&D efforts will be confined to prospects that are appropriate for the Utility, in the judgment of Utility management, considering the risks and economic consequences involved.

C. Nonutility (NARCo) Objective

To find or otherwise acquire, develop and exploit liquid petroleum and natural gas resources, for the purpose of generating profits for Montana Power Company stockholders.

(1) NARCO E&D activities will primarily focus on crude oil prospects but will not exclude other petroleum liquids or natural gas.

(2) Subject to the exceptions noted below, it is the intent of The Montana Power Company that NARCO E&D activity will primarily be concentrated in areas outside the State of Montana.

D. Areas of Operation

Exhibit 1 attached is a map of the State of Montana that specifically defines operating areas, based on county boundaries, for the Utility and NARCO.

E. Guidelines

(1) It is the intent of The Montana Power Company that the Utility will generally conduct E&D activities for natural gas only in Montana, on Utility leases located within the Utility area defined in Exhibit 1. If any industry gas play develops outside of the Utility area and participation in that play by the Utility is judged to be appropriate by Utility management, this restriction may be modified under the provisions of Section G. The Utility will not conduct E&D activities on any NAP lease unless the lease or the gas exploration/production rights for the lease or the targeted depth are assigned to the Utility per E(9).

- (2) If any well drilled by or for the Utility, inside the Utility area defined in Exhibit 1, results solely in crude oil, condensate or other petroleum liquids production and if the well is judged to be commercial by NARCo management, the Utility's interest in these liquids will be assigned to NARCo and the booked drilling, completion and any other applicable costs for the well will be transferred to NARCO on an actual basis, subject to approval by NARCO management.

If the well was drilled on a lease or under rights held by the Utility as of the effective date of this policy or subsequently acquired from someone other than NARCO, the Utility will retain a two (2.0) percent overriding royalty, as defined in E(3) below, on the liquid production assigned to NARCo. If the well was drilled on a lease or under rights assigned to the Utility by NARCo in accordance with E(9), after the effective date of this policy, no overriding royalty burden will be attached to the liquids production assigned to NARCO.

- (3) For the purposes of this policy, the term Overriding Royalty" shall be defined as follows and any well, lease or exploration/ production rights assignment between the Utility and NARCo will include the following clause or wording to the same effect: Assignee hereby grants to Assignor a two (2.0) percent overriding royalty to be calculated based on revenue from the sale of assignee's share of production, less all other overrides and royalties and taxes other than income taxes.

- (4) NARCO will conduct E&D activities, in Montana, within the NARCo area defined in Exhibit 1. The Utility will have the right of first refusal to purchase, at prevailing market prices and contract terms, any natural gas found by or for NARCO within that NARCO area.
- (5) NARCO may conduct E&D activities within the Utility area defined on Exhibit 1, but only for crude oil and on NARCo leases to enhance and maintain its existing oil production operations or to participate in any industry oil plays that may develop. NARCo will not conduct E&D activities on any Utility lease in the Utility area unless the lease of the oil exploration/production rights for the lease or the targeted depth are assigned to NARCo per E(9).
- (6) If any well drilled by or for NARCO, inside the Utility area defined in Exhibit 1, results solely in natural gas production and if that well is judged to be commercial by Utility management, NARCo interest in that gas will be assigned to the Utility and the booked drilling, completion and any other applicable costs for the well will be transferred to the Utility on an actual basis, subject to approval by Utility management.

If the well was drilled on a lease or under rights held by NARCo as of the effective date of the policy or subsequently acquired from someone other than the Utility, NARCo will retain a two (2.0) percent overriding royalty, as defined in E(3) on the gas production assigned to the Utility. If the well was drilled on a lease or under rights assigned to NARCo by the Utility in

accordance with E(9), after the effective date of this policy, no overriding royalty burden will be attached to the gas production assigned to the Utility.

- (7) If any well drilled by or for either NARCO or the Utility, inside the Utility area defined in Exhibit 1, results in commercial quantities of both crude oil or other petroleum liquids and natural gas production, the rights to the oil and/or liquids will be transferred to or held by NARCO and the rights to the gas will be transferred to or held by the Utility and the actual drilling, completion and any other applicable costs for the well will be divided equitably between NARCO and the Utility, subject to respective management approvals. The drilling party will retain a two (2.0) percent overriding royalty as defined in E(3) on the production assigned to the nondrilling party, in accordance with the applicable provisions of E(2) or E(6).
- (8) Total expense for dry holes will be borne solely by the drilling party except when NARCO finds natural gas, or the Utility finds crude oil or other petroleum liquids, in the Utility area defined in Exhibit 1 in a shallower zone and continues to drill an unsuccessful attempt to a deeper depth. In such cases, if the production is judged to be commercial by the nondrilling party, rights to the production will be assigned to the nondrilling party and the actual drilling, completion and any other applicable costs for the well will be divided equitably between NARCO and the Utility, subject to respective management approvals, with the drilling party incurring the dry hole cost portion. The drilling party will retain a two (2.0) percent overriding royalty as defined in

E(3) on the production assigned to the nondrilling party, in accordance with the applicable provisions of E(2) or E(6).

- (9) Henceforth from the date this policy is effective, if any nonproducing Montana lease or the exploration/production rights on a lease or to a particular depth on a lease are assigned to NARCO by the Utility or to the Utility by NARCO, the appropriate transfers will be made at actual booked capital costs with the assignor retaining a two (2.0) percent overriding royalty interest, as defined by E(3), in any subsequent petroleum liquid or natural gas production respectively, developed by the assignee, except for production that reverts to the assignor under the provisions of items E(2), E(6), E(7), or E(8).

F. Administration

All lease, well and drilling cost transfers between the Utility and NARCO will be made under the direction of the Controller of The Montana Power Company. As required by the Uniform System of Accounts, such transfers will only be made after the appropriate approvals are received from the Montana Public Service Commission.

All E&D decisions, judgments and negotiations between the Utility and NARCO will be the responsibility of the managers in charge of Utility gas supply and NARCO operations, respectively. Interpretation and overall implementation of this E&D policy will be the responsibility of the Senior Vice President, Gas and Oil.

Policy and strategy guidance will be provided by the Chief Executive Officer of The Montana Power Company.

C. Amendments

This policy represents the best judgment of Montana Power Company's management under the circumstances as of the effective date. As circumstances change, or situations arise that are not covered by the guidelines herein, this policy may be amended as appropriate, with approval by the Chief Executive Officer of The Montana Power Company.

Effective Date: _____

Approvals: _____ Date _____

Chief Executive Officer

_____ Date _____

Senior Vice President, Gas & Oil

_____ Date _____

Controller

03/28/83

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